TDFI

Tennessee Department of Financial Institutions

Have an adjustable-rate mortgage?
It's time to plan for mortgage rate increases.

The Tennessee Department of Financial Institutions (TDFI) is urging all homeowners with adjustable rate mortgages to plan now for potential interest rate increases. Many adjustable rate and interest-only mortgage products are structured such that the interest rate "resets" at some point after your loan closing date. In an environment where interest rates are increasing, an interest rate reset may result in significant increases to your monthly mortgage payment. As such, the Department encourages borrowers to start today in examining their ability to afford mortgage payments after the interest rate increase.

The Department suggests the following five steps to **borrowers** with Adjustable Rate Mortgages:

1) Know your mortgage statement—Your mortgage statement may tell you who the lender is and how to contact them. The lender may not be the broker who closed your loan. In addition, this statement should provide the date your interest rate will reset.

2) Know your lender—Contact your lender if you are unsure of the terms of your loan, or if you foresee difficulty in affording your mortgage payment after the reset. Many lenders have options for borrowers experiencing financial difficulty.

3) Know your credit—Check your credit report and your credit score before you refinance to get out of an adjustable-rate loan. Start repairing credit now, so that you can possibly qualify for lower-cost loan alternatives in the future.

4) Know your options—If you are currently behind on your mortgage payments, do not avoid your lenders. They may have options available to prevent foreclosure. Other local resources that may assist you in evaluating your options are as follows:

- ☑ National Toll-Free Hotline dedicated to preventing foreclosures (1-888-995-HOPE).
- ☑ List of U.S. Department of Housing and Urban Development (HUD) Certified Counselors at http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm
- ☑ List Tennessee Housing Development Authority (THDA) Certified Counselors at http://www.thda.org/.
- ☑ Tennessee Department of Financial Institutions, Consumer Resources Division at 1-800-778-4215 or at www.tennessee.gov/tdfi .

5) Know the lingo—When reviewing your mortgage statement or speaking with counselors, keep in mind certain terms and ask how they apply to your situation. The following are important mortgage terms you should know:

Adjustable rate	An interest rate that changes over the life of the loan, resulting in possible changes in the monthly payment, loan term and/or principal
Cap	A limit on the amount the interest rate can increase.
Equity	The difference between what you owe and your home's worth.
Fully indexed rate	The index rate plus the margin.
Hybrid ARM	A loan that has both a fixed rate and adjustable period. A 2/28 loan, for example, is a 30-year loan that has a fixed rate for the first two years and an adjustable rate for the remaining 28 years.
Index	A measure of interest rates that fluctuates over time. When calculating the interest rate for ARMs, lenders use a variety of different indexes. Among the most common is the LIBOR (London Interbank Offer Rate).
Initial Rate	A rate provided for a limited period of time at the beginning of the loan. Interest only ARM – Allows the borrower to pay only the interest for a limited number of years.
Margin	A percentage added to the index by the lender.
Payment Option ARM	Allows the borrower to choose among several payment options each month. Typically, there are three payment choices: an interest-only payment; a minimum payment (that may be less than the interest due); and a traditional payment of principal and interest.
Prepayment penalty	A fee that may be required if the borrower pays off the loan early by refinancing or selling his or her home
Source: American Financial Services Association Education Foundation	

The Department offers the following recommendations to **lenders** that are regulated by TDFI, and that provide Adjustable Rate Mortgages and other non-traditional lending products:

<u>Review the Guidance on Nontraditional Mortgage Product Risks</u>—The Department has recently adopted the Guidance on Nontraditional Mortgage Product Risks (the "Guidance") that was issued in November of 2006 by the Conference of State Bank Supervisors ("CSBS") and the American Association of Residential Mortgage Regulators ("AARMR"). The Department strongly believes that adherence to the Guidance will not only better protect consumers and promote consistent regulation of the residential mortgage market, but will also enhance the overall safety and soundness of the residential mortgage industry.

We encourage all lenders to view the Guidance which may be viewed on the Department's website at http://state.tn.us/tdfi/compliance/nontraditionalmortgageguidance.pdf, or at the CSBS website at http://www.csbs.org/Content/NavigationMenu/RegulatoryAffairs/FederalAgencyGuidanceDatabase/CSBS-AARMR_FINAL_GUIDANCE.pdf .

Please note that the federal regulators have published a similar guidance that applies to all banks and their subsidiaries, bank holding companies and their nonbank subsidiaries, savings associations and their subsidiaries, savings and loan holding companies and their subsidiaries, and credit unions.